

July 22, 2021

Analyst Meet Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	3,744		3,686	
Sales (Rs. m)	2,92,756	4,15,800	2,89,846	4,08,606
% Chng.	1.0	1.8		
EBITDA (Rs. m)	23,989	37,890	23,781	37,290
% Chng.	0.9	1.6		
EPS (Rs.)	22.7	36.7	22.5	36.0
% Chng.	0.9	1.9		

Key Financials - Consolidated

Y/e Mar	FY20	FY21	FY22E	FY23E
Sales (Rs. m)	2,48,702	2,41,431	2,92,756	4,15,800
EBITDA (Rs. m)	21,284	17,431	23,989	37,890
Margin (%)	8.6	7.2	8.2	9.1
PAT (Rs. m)	13,011	10,994	14,684	23,790
EPS (Rs.)	20.1	17.0	22.7	36.7
Gr. (%)	38.9	(15.5)	33.6	62.0
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	15.6	9.5	11.4	16.0
RoCE (%)	20.5	11.4	14.8	21.5
EV/Sales (x)	8.8	9.1	7.4	5.2
EV/EBITDA (x)	103.3	125.4	89.9	57.1
PE (x)	169.1	200.2	149.9	92.5
P/BV (x)	19.9	18.1	16.1	13.7

Key Data

AVEU.BO | DMART IN

52-W High / Low	Rs.3,450 / Rs.1,949
Sensex / Nifty	52,837 / 15,824
Market Cap	Rs.2,201bn/ \$ 29,553m
Shares Outstanding	648m
3M Avg. Daily Value	Rs.2389.29m

Shareholding Pattern (%)

Promoter's	74.99
Foreign	10.04
Domestic Institution	6.71
Public & Others	8.26
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	0.7	18.7	61.0
Relative	0.2	11.5	15.6

Amnish Aggarwal

amnishaggarwal@plindia.com | 91-22-66322233

Heet Vora

heetvora@plindia.com | 91-22-66322381

Rashi Vora

rashivora@plindia.com |

Growth blocks in place; BUY

Quick Pointers:

- 90% June 21 recovery over June 19 for >2year old stores with low restrictions.
- Strong store guidance of 37 stores during FY22 (59 stores over FY20-22)
- 1200-1300 stores opportunity in existing clusters shows 5x potential.

We retain our positive stance on D'Mart post Annual Analyst Interaction given huge growth runway at 5.5x than existing stores and rising scale in D'Mart Ready. We believe that D'Mart model is maturing with significant operating leverage and capacity to cut costs, balance sheet strength to invest in real estate/build stores and sustained "Everyday low prices" in a highly consolidated but nascent modern trade in food and grocery.

We remain positive on D'Mart Ready and expect it to post sales of Rs15-20bn by FY23, which should provide scale and mark a move towards being profitable in future. We believe D'Mart Ready Ecom model with no aggressive discounting and free delivery is coming of age in new India. We note that D'Mart Ready has moved from food and grocery to General merchandise and even fresh fruits and vegetables which shows growing Mgt confidence in the success of this model.

We believe post covid era will see strong rebound in growth and with higher average bill value due to inflationary environment, despite restoration of bills cuts/store Although we expect growth acceleration in coming quarters, 3rd covid wave in festival season remains a key near term risk. We estimate 42.9% PAT CAGR over FY21-25 and retain BUY with a DCF based target price of Rs3744 (Rs3686 earlier).

E-Commerce sales up 123%, expands to 5 cities: D'Mart ready sales increased by 123% on the back of strong demand and removal of capacity glitches in Mumbai. D'Mart Ready has now extensively covered the MMR and forayed into Ahmedabad, Pune, Bangalore and Hyderabad. Increased scale has helped improve margins by 790bps and flattish losses at Rs800mn. E-Com business will be scaled rapidly once the Mumbai model turns profitable. D'Mart has no plans to offer free delivery but has capped Delivery charge to Rs 79 to improve consumer value. Sales mix of E-Com has allowed D'Mart to offer aspirational products not sold through stores.

1200/1300 stores potential in existing clusters, a 5.5x opportunity: D'Mart estimates that it can open stores in cities with population of 1lakh and has smaller store formats of 20000/10000 sq ft also. Existing clusters offer an opportunity to open 1200-1300 stores while PAN India scope is that of 2000-3000 stores. Looking at current store number of 238, the existing cluster offer 5.5x opportunity. Difficulty in availability of real estate slows down expansion hence D'Mart continues to acquire suitable real estate when available with expectation of opening stores within 2 years. D'Mart's aggressive store expansion strategy has been vindicated by its guidance to open 37 stores during FY22 and management's suggestion that D'Mart is capable to open 50 stores a year if suitable real estate is available.

Post covid recovery has set in, cost efficiencies to the fore: Recovery in areas where restrictions have eased has been very strong. The company already recorded 90% of June19 sales in areas with minimal restrictions. A surge in non-essential goods indicates strong recovery once restrictions ease. D'Mart has also been able to reduce headcount on account of higher efficiency due to lesser bill counts higher bill value. Private Label has seen more trials and D'Mart expects to expand the same at a steady pace.

Inflation is value retailers friend: High inflationary trends allows value retailers like D'Mart to offer increased value to customers and gain share from General trade which are convenience oriented. We expect inflation will enable average bill value to remain elevated vis à vis pre covid times with bill cuts normalizing as restrictions ease providing strong growth potential in medium term.

Exhibit 1: Net Sales grew 31.3%, EBITDA margins contracted to 4.4% (QoQ), up 160bps YoY

Y/e March	Q1FY22	Q1FY21	YoY gr. (%)	Q4FY21	FY21	FY20	YoY gr. (%)
Net Sales	50,318	38,332	31.3	73,031	2,37,872	2,46,750	(3.6)
Gross Profit	6,221	5,234	18.9	10,514	34,309	36,591	(6.2)
<i>% of NS</i>	<i>12.4</i>	<i>13.7</i>	<i>(1.3)</i>	<i>14.4</i>	<i>14.4</i>	<i>14.8</i>	<i>(0.4)</i>
Other Expenses	4,009	4,145	(3.3)	4,348	16,891	15,370	9.9
<i>% of NS</i>	<i>8.0</i>	<i>10.8</i>	<i>(2.8)</i>	<i>6.0</i>	<i>7.1</i>	<i>6.2</i>	<i>0.9</i>
EBITDA	2,212	1,089	103.2	6,166	17,417	21,221	(17.9)
<i>Margins (%)</i>	<i>4.4</i>	<i>2.8</i>	<i>1.6</i>	<i>8.4</i>	<i>7.3</i>	<i>8.6</i>	<i>(1.3)</i>
Depreciation	927	861	7.7	946	3,714	3,398	9.3
Interest	84	76	11.4	103	345	628	(45.1)
Other Income	362	513	(29.5)	526	2,089	633	229.9
PBT	1,563	666	134.8	5,642	15,448	17,829	(13.4)
Tax	412	170	142.1	1,293	3,795	4,330	(12.4)
<i>Tax rate (%)</i>	<i>26.3</i>	<i>25.5</i>	<i>0.8</i>	<i>22.9</i>	<i>24.6</i>	<i>24.3</i>	<i>0.3</i>
Adjusted PAT	1,151	496	132.3	4,350	11,653	13,499	(13.7)

Source: Company, PL

Exhibit 2: Added 4 stores in 1QFY22; Cost of retail down 280bps YoY but up 200bps QoQ

	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22
No of Stores	214	216	220	221	234	238
Area (mn Sq.ft.)	7.8	8.0	8.2	8.2	8.8	9.0
Sales/Ft	7940	4792	6364	9098	8280	5585
Gross Profit/Ft	1050	654	894	1375	1192	690
EBIDTA/FT	535	136	396	896	699	246
Cost of retail %	6.5	10.8	7.8	5.8	6.0	8.0

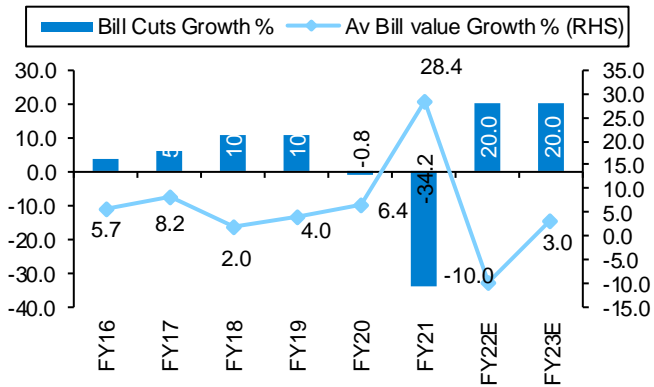
Source: Company, PL

Exhibit 3: Gross Profit/Ft and EBIDTA/Ft likely grow in FY22 over low base in FY21, but still lower than normal average

	FY18	FY19	FY20	FY21	FY22E	FY23E
Sales/Ft	32,719	35,647	32,879	28,814	29,155	34,820
Gross Profit/Ft	4,853	5,091	4,830	4,068	4,182	5,094
EBIDTA/FT	2,738	2,768	2,729	1,976	2,270	3,014
Capex/Ft	9,664	9,974	10,338	8,734	8,663	8,882
Cost of retail %	6.9%	6.9%	6.6%	7.6%	6.9%	6.3%
Working Cap/Ft	1,723	1,566	1,927	1,708	1,161	2,389

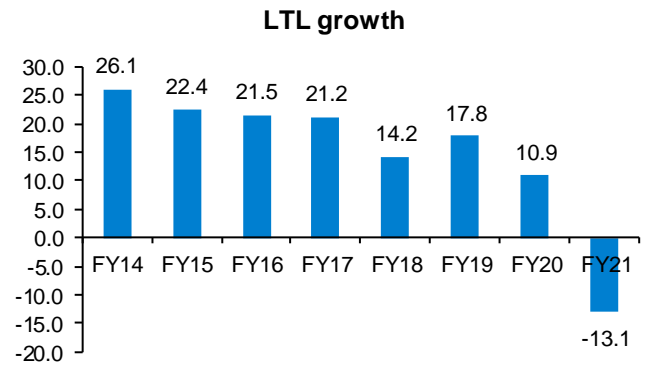
Source: Company, PL

Exhibit 4: Bill Cut decreased 34% in FY21



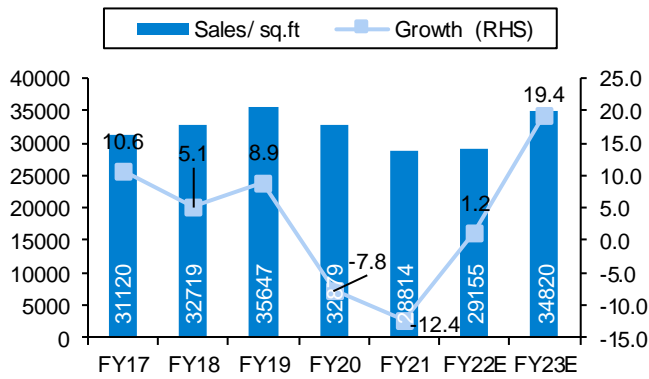
Source: Company, PL

Exhibit 5: LTL growth at -13.1% in FY21



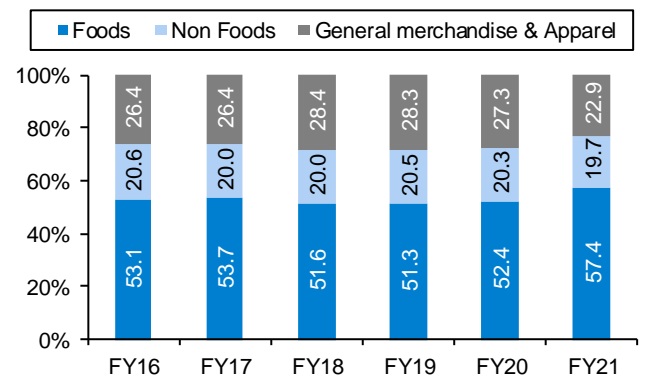
Source: Company, PL

Exhibit 6: Sales/Sq. ft. to reach Rs 34,820 in FY23E



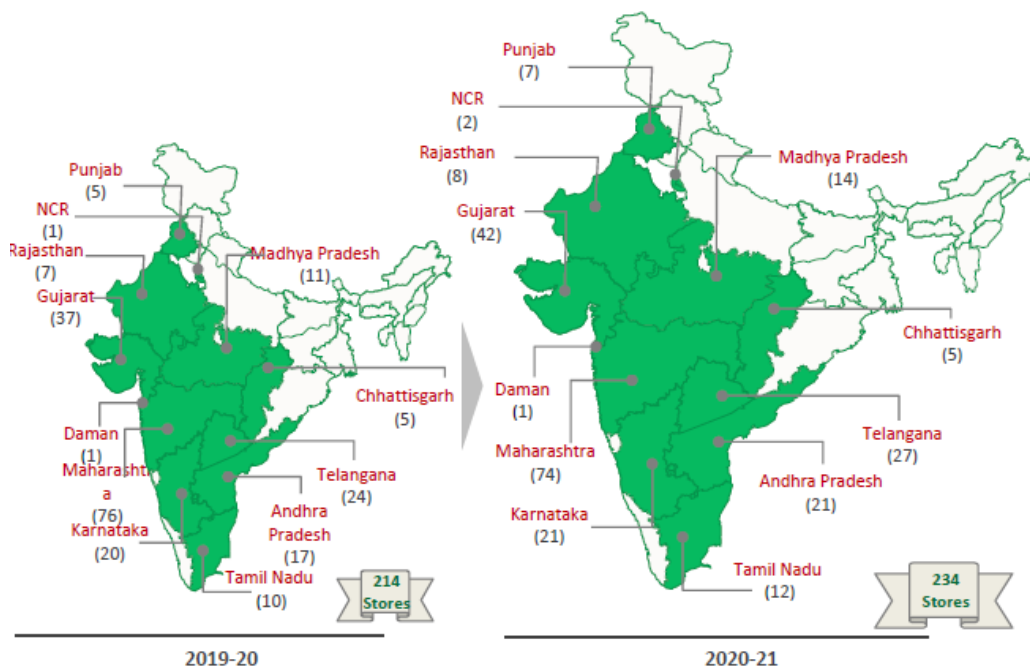
Source: Company, PL

Exhibit 7: Foods continue to remain highest contributor

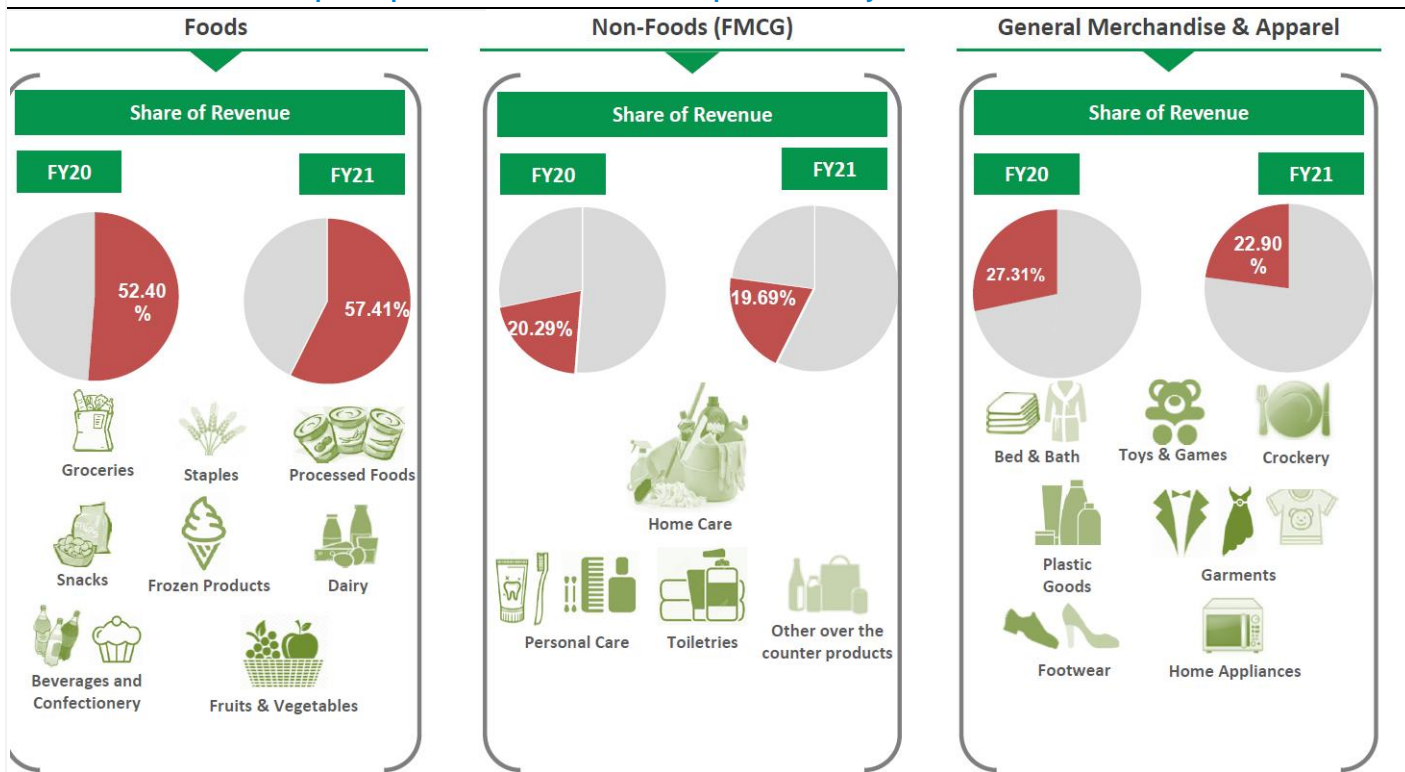


Source: Company, PL

Exhibit 8: Cluster based expansion strategy continues – Addition maximum Ex Maharashtra and Gujarat



Source: Company, PL

Exhibit 9: Share of foods up 499bps as lockdown restrictions permitted only sales of essentials


Source: Company, PL

Exhibit 10: Avenue E-Commerce reports strong numbers with Revenues doubling while Losses remain flat

	Avenue E-Commerce Limited			Avenue Food Plaza Limited			Align Retail Trades Limited		
Rs Crs	YE Mar 2021	YE Mar 2020	YE Mar21/ Mar 20	YE Mar 2021	YE Mar 2020	YE Mar21/ Mar 20	YE Mar 2021	YE Mar 2020	YE Mar21/ Mar 20
Sales	791.3	354.0	123.5%	14.9	32.4	-54.0%	1296.2	1177.6	10.1%
Tot Inc	793.1	354.6	123.7%	15.1	33.4	-54.7%	1296.2	1178.1	10.0%
COGS	688.2	317.7	116.6%	10.3	16.7	-38.6%	1246.9	1120.1	11.3%
GC	13.03%	10.25%	278 bps	31.0%	48.3%	-1727 bps	3.8%	4.9%	-108 bps
Empl Exp	35.5	26.6	33.8%	0.0	0.0	408.3%	5.9	4.8	22.8%
% of Tot Inc	4.48%	7.49%	-301 bps	0.2%	0.0%	15 bps	0.5%	0.4%	5 bps
Other Exp	97.0	50.8	90.9%	5.3	7.2	-26.3%	19.0	15.4	23.6%
% of Tot Inc	12.22%	20.73%	-850 bps	34.8%	21.4%	1340 bps	1.5%	1.3%	16 bps
EBITDA	-29.4	-41.1	-28.6%	-0.7	8.5	-107.9%	24.3	37.3	-34.8%
EBITDA %	-3.71%	-11.62%	791 bps	-4.5%	26.20%	-3070 bps	1.9%	3.2%	-129 bps
Fin Costs	8.9	6.5	36.5%	0.0	0.0		0.4	0.6	-34.6%
Dep & Amort	44.2	32.7	35.1%	2.1	0.8	155.3%	3.5	4.0	-12.2%
PBT	-80.6	-79.7	1.1%	-2.5	8.7	-129.1%	20.5	33.2	-38.3%
PBT %	-10.16%	-22.48%	1231 bps	-16.6%	25.9%	-4255 bps	1.6%	2.8%	-124 bps
Tax	0.0	0.0		-0.6	2.4	-126.0%	4.7	8.4	-44.5%
PAT	-80.6	-79.7	1.1%	-1.9	6.3	-130.2%	15.8	24.8	-36.3%
PAT %	-10.16%	-22.48%	1231 bps	-12.6%	18.8%	-3140 bps	1.2%	2.1%	-89 bps

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
Net Revenues	2,48,702	2,41,431	2,92,756	4,15,800
YoY gr. (%)	24.3	(2.9)	21.3	42.0
Cost of Goods Sold	2,11,029	2,05,547	2,48,550	3,51,767
Gross Profit	37,673	35,884	44,206	64,033
Margin (%)	15.1	14.9	15.1	15.4
Employee Cost	4,561	5,366	5,270	7,276
Other Expenses	11,828	13,088	14,948	18,867
EBITDA	21,284	17,431	23,989	37,890
YoY gr. (%)	30.3	(18.1)	37.6	57.9
Margin (%)	8.6	7.2	8.2	9.1
Depreciation and Amortization	3,744	4,142	4,553	5,263
EBIT	17,540	13,289	19,436	32,627
Margin (%)	7.1	5.5	6.6	7.8
Net Interest	691	417	605	837
Other Income	600	1,962	905	186
Profit Before Tax	17,448	14,835	19,736	31,976
Margin (%)	7.0	6.1	6.7	7.7
Total Tax	4,438	3,840	5,052	8,186
Effective tax rate (%)	25.4	25.9	25.6	25.6
Profit after tax	13,011	10,994	14,684	23,790
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	13,011	10,994	14,684	23,790
YoY gr. (%)	44.2	(15.5)	33.6	62.0
Margin (%)	5.2	4.6	5.0	5.7
Extra Ord. Income / (Exp)	(41)	(19)	-	-
Reported PAT	12,970	10,975	14,684	23,790
YoY gr. (%)	43.9	(15.4)	33.8	62.0
Margin (%)	5.2	4.5	5.0	5.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	12,970	10,975	14,684	23,790
Equity Shares O/s (m)	648	648	648	648
EPS (Rs)	20.1	17.0	22.7	36.7

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
Non-Current Assets				
Gross Block	63,210	75,037	78,360	98,093
Tangibles	62,519	74,314	77,528	97,137
Intangibles	691	723	832	956
Acc: Dep / Amortization	11,686	15,334	18,648	22,783
Tangibles	11,280	14,833	18,047	22,067
Intangibles	406	501	601	716
Net fixed assets	51,524	59,703	59,712	75,310
Tangibles	51,239	59,481	59,481	75,070
Intangibles	285	222	231	241
Capital Work In Progress	3,644	10,196	10,400	10,608
Goodwill	783	783	783	783
Non-Current Investments	31,227	11,093	637	703
Net Deferred tax assets	(474)	(512)	(690)	(977)
Other Non-Current Assets	10,107	14,165	12,695	13,189
Current Assets				
Investments	147	30	178	195
Inventories	19,474	22,483	19,043	39,520
Trade receivables	196	436	802	1,139
Cash & Bank Balance	1,079	14,456	47,971	38,860
Other Current Assets	1,494	1,538	1,759	2,498
Total Assets	1,20,764	1,36,560	1,55,297	1,84,676
Equity				
Equity Share Capital	6,478	6,478	6,478	6,478
Other Equity	1,04,320	1,15,359	1,29,979	1,53,769
Total Network	1,10,797	1,21,837	1,36,457	1,60,247
Non-Current Liabilities				
Long Term borrowings	-	-	2,000	2,000
Provisions	15	25	24	31
Other non current liabilities	2,211	3,120	3,969	4,915
Current Liabilities				
ST Debt / Current of LT Debt	37	-	1,507	1,500
Trade payables	4,335	5,781	6,128	9,306
Other current liabilities	2,886	5,276	4,514	5,692
Total Equity & Liabilities	1,20,764	1,36,560	1,55,297	1,84,676

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
PBT	17,448	14,835	19,736	31,976
Add. Depreciation	3,744	4,142	4,553	5,263
Add. Interest	691	417	605	837
Less Financial Other Income	600	1,962	905	186
Add. Other	(37,824)	17,033	12,952	680
Op. profit before WC changes	(15,940)	36,425	37,847	38,757
Net Changes-WC	(5,789)	(37)	2,792	(17,751)
Direct tax	(4,438)	(3,840)	(5,052)	(8,186)
Net cash from Op. activities	(26,167)	32,548	35,586	12,820
Capital expenditures	(11,923)	(18,872)	(4,766)	(21,069)
Interest / Dividend Income	-	-	-	-
Others	(22)	91	(148)	(18)
Net Cash from Inv. activities	(11,945)	(18,781)	(4,914)	(21,087)
Issue of share cap. / premium	41,953	64	(64)	-
Debt changes	(4,261)	(37)	3,507	(7)
Dividend paid	-	-	-	-
Interest paid	(691)	(417)	(605)	(837)
Others	(1)	-	6	-
Net cash from Fin. activities	37,000	(389)	2,844	(844)
Net change in cash	(1,111)	13,377	33,515	(9,111)
Free Cash Flow	(38,089)	13,675	30,820	(8,249)

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Net Revenue	52,182	74,327	73,031	50,318
YoY gr. (%)	(12.3)	10.1	17.9	31.3
Raw Material Expenses	44,851	63,096	62,518	44,097
Gross Profit	7,330	11,231	10,514	6,221
Margin (%)	14.0	15.1	14.4	12.4
EBITDA	3,249	6,914	6,166	2,212
YoY gr. (%)	(37.0)	16.6	47.6	103.2
Margin (%)	6.2	9.3	8.4	4.4
Depreciation / Depletion	904	1,003	946	927
EBIT	2,345	5,911	5,220	1,285
Margin (%)	4.5	8.0	7.1	2.6
Net Interest	79	87	103	84
Other Income	558	492	526	362
Profit before Tax	2,824	6,316	5,642	1,563
Margin (%)	5.4	8.5	7.7	3.1
Total Tax	719	1,614	1,293	412
Effective tax rate (%)	25.4	25.5	22.9	26.3
Profit after Tax	2,106	4,703	4,349	1,151
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	2,106	4,703	4,349	1,151
YoY gr. (%)	(36.9)	19.3	51.6	132.3
Margin (%)	4.0	6.3	6.0	2.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	2,106	4,703	4,349	1,151
YoY gr. (%)	(36.9)	19.3	51.6	132.3
Margin (%)	4.0	6.3	6.0	2.3
Other Comprehensive Income	(4)	(7)	6	(4)
Total Comprehensive Income	2,102	4,696	4,356	1,147
Avg. Shares O/s (m)	648	648	648	648
EPS (Rs)	3.3	7.3	6.7	1.8

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21	FY22E	FY23E
Per Share(Rs)				
EPS	20.1	17.0	22.7	36.7
CEPS	25.9	23.4	29.7	44.9
BVPS	171.0	188.1	210.7	247.4
FCF	(58.8)	21.1	47.6	(12.7)
DPS	-	-	-	-
Return Ratio(%)				
RoCE	20.5	11.4	14.8	21.5
ROIC	14.7	10.9	18.1	22.4
RoE	15.6	9.5	11.4	16.0
Balance Sheet				
Net Debt : Equity (x)	0.0	(0.1)	(0.3)	(0.2)
Net Working Capital (Days)	23	26	17	28
Valuation(x)				
PER	169.1	200.2	149.9	92.5
P/B	19.9	18.1	16.1	13.7
P/CEPS	131.3	145.4	114.4	75.7
EV/EBITDA	103.3	125.4	89.9	57.1
EV/Sales	8.8	9.1	7.4	5.2
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	10-Jul-21	BUY	3,686	3,378
2	05-Jul-21	BUY	3,366	3,314
3	08-May-21	BUY	3,360	2,896
4	07-Apr-21	BUY	3,195	2,880
5	10-Jan-21	BUY	3,296	2,968
6	07-Jan-21	UR	-	2,915
7	17-Oct-20	BUY	2,316	1,988
8	08-Oct-20	Hold	2,057	2,065
9	05-Aug-20	Hold	2,055	2,163

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	BUY	3,511	3,159
2	Avenue Supermarts	BUY	3,686	3,378
3	Bajaj Electricals	Hold	1,084	1,050
4	Britannia Industries	Accumulate	3,755	3,545
5	Burger King India	BUY	250	158
6	Colgate Palmolive	Accumulate	1,794	1,690
7	Crompton Greaves Consumer Electricals	BUY	454	450
8	Dabur India	UR	-	590
9	Emami	BUY	579	564
10	Havells India	Hold	1,066	1,022
11	Hindustan Unilever	BUY	2,562	2,487
12	ITC	BUY	258	202
13	Jubilant FoodWorks	Accumulate	3,404	3,065
14	Kansai Nerolac Paints	Accumulate	620	587
15	Marico	UR	-	520
16	Nestle India	Accumulate	18,450	17,602
17	Pidilite Industries	UR	-	2,179
18	Titan Company	Accumulate	1,869	1,763
19	Voltas	Hold	955	1,015
20	Westlife Development	BUY	572	496

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



ANALYST CERTIFICATION

(Indian Clients)

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